# TESTIMONY
# OF
# CHRISTOPHER COX, CHAIRMAN
# U.S. SECURITIES AND EXCHANGE COMMISSION

# RECENT EVENTS IN THE CREDIT MARKETS

## BEFORE THE
## COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS

## UNITED STATES SENATE

## APRIL 3, 2008

**U.S. Securities and Exchange Commission**
**100 F Street, NE**
**Washington, D.C. 20549**

**Testimony Concerning**

**Recent Events in the Credit Markets**

**by Christopher Cox**
Chairman
U.S. Securities & Exchange Commission

**Before the Senate Committee on Banking, Housing, and Urban Affairs**

**April 3, 2008**

Chairman Dodd, Senator Shelby and Members of the Committee:

Thank you for inviting me to testify on behalf of the Securities and Exchange Commission about recent events in the financial markets and the implications of the merger agreement between JPMorgan Chase & Co. and The Bear Stearns Companies, Inc. The recent actions by the Federal Reserve, as Chairman Bernanke has described, are unprecedented and of unquestioned significance. They include not only the extension of guarantees and credit in connection with JPMorgan's acquisition of Bear Stearns, but also the opening of the discount window to every one of the major investment banks.

What happened to Bear Stearns during the week of March 10th was likewise unprecedented. For the first time, a major investment bank that was well-capitalized and apparently fully liquid experienced a crisis of confidence that denied it not only unsecured financing, but short-term secured financing, even when the collateral consisted of agency securities with a market value in excess of the funds to be borrowed. Counterparties would not provide securities lending services and clearing services. Prime brokerage clients moved their cash balances elsewhere. These decisions by counterparties, clients, and lenders to no longer transact with Bear Stearns in turn influenced other counterparties, clients, and lenders to also reduce their exposure to Bear Stearns. Over the weekend of March 15th and 16th, Bear Stearns faced a choice between filing for bankruptcy on Monday morning, or concluding an acquisition agreement with a larger partner.

In the cauldron of these events, the actions that the Federal Reserve took – in particular, extending access to the discount window not only to Bear Stearns, but also to the major investment banks – were addressed to preventing future occurrences of the run-on-the-bank phenomenon that Bear endured. It remains, however, for regulators and Congress to consider what other steps, if any, are necessary to harmonize this significant new safeguard with other aspects of the existing legislative scheme, and the regulatory structure that resulted from the enactment of the Gramm-Leach-Bliley Act.

The SEC, of course, does not have the function of extending credit or liquidity facilities to investment banks or to any regulated entity. Instead, through our consolidated supervised entities (CSE) program, the Commission exercises oversight of the financial and operational condition of Bear Stearns, Goldman Sachs, Lehman Brothers, Merrill Lynch, and Morgan

Stanley at both the holding company and regulated entity levels. Our oversight of the CSEs includes monitoring for firm-wide financial and other risks that might threaten the regulated entities within the CSE, especially the U.S. regulated broker-dealer and their customers and other regulated entities, here and abroad. In particular, the SEC requires that firms maintain an overall Basel capital ratio at the consolidated holding company level of not less than the Federal Reserve's 10% "well-capitalized" standard for bank holding companies. CSEs provide monthly Basel capital computations to the SEC. The CSE rules also provide that an "early warning" notice must be filed with the SEC in the event that certain minimum thresholds, including the 10% capital ratio, are breached or are likely to be breached. At all times during the week of March 10 – 17, up to and including the time of its agreement to be acquired by JPMorgan Chase, Bear Stearns had a capital cushion well above what is required to meet the Basel standards. Specifically, even at the time of its sale, Bear Stearns's consolidated capital, and its broker-dealers' net capital, exceeded relevant supervisory standards.

Even prior to the experience with Bear Stearns, the SEC's supervision of investment bank holding companies has always recognized that capital is not synonymous with liquidity – and that more is required to determine a firm's financial health. A firm can be highly capitalized – that is, it can have far more assets than liabilities – while also having liquidity problems. While the ability of a securities firm to withstand market, credit, and other types of stress events is linked to the amount of its capital, the firm also needs sufficient liquid assets – cash, and high-quality instruments such as U.S. Treasury securities that can be used as collateral – to meet its financial obligations as they arise.

For this reason, the CSE program requires substantial liquidity pools to allow firms to continue to operate normally in such environments. Specifically, CSEs are required to maintain funding procedures designed to ensure that the holding company has sufficient stand-alone liquidity to meet its expected cash outflows in a stressed liquidity environment where access to unsecured funding is not available for a period of at least one year.

In these ways, the supervisory model has focused on the importance of both capital and liquidity. In particular, the liquidity measurement has been designed to withstand the complete loss, for an entire year, of all sources of unsecured funding. But what neither the CSE regulatory approach nor any existing regulatory model has taken into account is the possibility that secured funding, even that backed by high-quality collateral such as U.S. Treasury and agency securities, could become unavailable. The existing models for both commercial and investment banks are premised on the expectancy that secured funding, albeit perhaps on less favorable terms than normal, would be available in any market environment. For this reason, the inability of Bear Stearns to borrow against even high-quality collateral on March 13th and March 14th – an unprecedented occurrence – has prompted the Federal Reserve's action to open the discount window to investment banks. Beyond this obviously powerful step, the Bear Stearns experience has challenged the measurement of liquidity in every regulatory approach, not only here in the United States but around the world.

It was in this connection that I recently wrote to the Basel Committee offering my strong support for their proposed work to consider whether the capital adequacy standards applicable to

internationally active sophisticated institutions should be extended to deal explicitly with liquidity risk.

The Federal Reserve's decision to provide funding to Bear Stearns through JPMorgan Chase was made because, as you have heard Chairman Bernanke testify, Bear's extensive participation in a range of critical markets meant that a chaotic unwinding of its positions could have cast doubt on the financial positions of some of Bear Stearns' thousands of counterparties, placed additional pressures on the financial system, and caused damage that would not have been confined to the financial system but would have been felt broadly in the real economy through its effects on asset values and credit availability. These are considerations of systemic risk that extend far beyond the Commission's mandate to protect investors, ensure orderly securities markets, and promote capital formation through such means as the CSE program. But it is important to observe that the SEC's statutory and regulatory regime, including not only our broker-dealer net capital regime, but also the protection provided by the Securities Investor Protection Corporation and the requirement that SEC-regulated broker-dealers segregate customer funds and fully-paid securities from those of the firm – worked in this case to achieve the purpose for which it was designed. Despite the run on the bank to which Bear Stearns was subjected, its customers were fully protected. At no time during the week of March 10$^{th}$ – 17$^{th}$, up to and including the date of the agreement with JP Morgan, were any of the customers of the Bear Stearns's broker-dealers at risk of losing their cash or their securities.

The question has been asked what might have happened if, notwithstanding the Federal Reserve's action, the transaction with JPMorgan had not been announced before Monday, March 17. Unfortunately, unlike a laboratory in which conditions can be held constant and variables changed while the experiment is repeated, in the social science of the market the selection of one course of action forever forecloses all other approaches that might have been taken. But there is one thing we know to a certainty: with or without JPMorgan Chase's acquisition of Bear, and with or without a bankruptcy, Bear Stearns's securities customers are and would have been fully protected from any loss of cash or securities.

Beyond demonstrating the importance of short-term liquidity in the form of available sources of secured funding, the Bear Stearns experience has highlighted the statutory supervisory gap in this area. Congress recognized the importance of having in place a framework for considering the resolution of difficulties experienced by commercial banks, but not investment banks, when in 1991 it enacted the Federal Deposit Insurance Improvement Act ("FDICIA"). FDICIA, together with the Federal Deposit Insurance Act, provides the FDIC with the authority to take preemptive action to resolve a troubled bank or other federally insured depository institution and prescribe methods for resolving those that fail. These statutes reflect Congress's conviction that it is best not to improvise the principles which will guide federal intervention in financial institutions. That is a principle that I believe is equally valid not only with respect to depositary institutions, but other systemically important financial institutions as well.

Now, as always, the SEC is working closely with the Department of the Treasury, the Federal Reserve, and the Federal Reserve Bank of New York among others to ensure that our regulatory actions contribute to orderly and liquid markets. In addition to the specific actions that the Commission staff took in connection with the Bear Stearns – JP Morgan transaction, the Commission's broader work to address the subprime turmoil has involved nearly every major

SEC division and office, and every area of emphasis. It includes, among other things, monitoring the financial condition of securities firms, guarding against market abuses, assessing the performance and revising the rules for credit rating agencies, and clarifying the application of accounting rules concerning the restructuring of mortgages. To coordinate the efforts of all of the Commission's Divisions and Offices, Erik Sirri, the Director of the Division of Trading and Markets, is leading an agency-wide Subprime Task Force composed of senior leadership from each of the relevant disciplines within the SEC, including the Division of Enforcement.

The SEC's mission – the protection of investors, the maintenance of orderly markets, and the promotion of capital formation – is more important now than it has ever been. The recent turmoil in credit markets has made this a particularly challenging time. We will continue to work not only within the SEC but in close cooperation with the Federal Reserve and our other regulatory counterparts to promote the continued health and vibrancy of our markets, the strengthening of investor confidence, and the economic growth to which our securities markets are so essential.

Thank you again for this opportunity to discuss these important issues. I am happy to take your questions.

(5)

**Testimony of Jamie Dimon**

**Before the Senate Committee on Banking, Housing and Urban Affairs**

**April 3, 2008**

Good morning Chairman Dodd, Ranking Member Shelby, and Members of the Committee. My name is Jamie Dimon and I am the Chairman and Chief Executive Officer JP Morgan Chase. I appreciate the invitation to appear before you today.

Mr. Chairman, your letter inviting me to testify asked me to address a number of issues relating to the JPMorgan-Bear Stearns merger. At the outset, I want to underscore a few key points about the transaction:

- First, we got involved in this matter because we were asked to help prevent a Bear Stearns collapse that had the potential to cause serious damage to the financial system and the broader economy.

- Second, we could not and would not have assumed the substantial risks of acquiring Bear Stearns without the $30 billion facility provided by the Fed. While we wanted to help, and I believe we were the only firm ultimately in a position to help, we had to protect the interests of our shareholders.

- Third, this transaction is not without risk for JPMorgan. We are acquiring some $360 billion of Bear Stearns assets and liabilities. The notion that Bear Stearns' riskiest assets have been placed in the $30 billion Fed facility is simply not true. And if there is ever a loss on the assets pledged to the Fed, the first $1 billion of that loss will be borne by JPMorgan alone.

*        *        *

Let me turn now to how we became involved in the effort to rescue Bear Stearns and avoid a financial crisis. On Thursday evening, March 13, Bear Stearns called to tell us that it might not have enough cash to meet obligations coming due the next day and needed emergency help. We contacted the New York Fed and learned that they were

aware of the situation and recognized that a Bear Stearns bankruptcy posed a serious risk to the financial system.

Working through the night and into Friday morning, the New York Fed agreed to establish a secured lending facility for the company, using JPMorgan as a conduit. But it became clear by the end of Friday that a comprehensive solution would be needed before the markets re-opened in Asia on Sunday evening.

We had teams of people working around the clock that weekend in an effort to determine what we could do to help. My perspective from the start was that we could not do anything that would jeopardize the health of JPMorgan. That would not be good for our shareholders, and it would not be good for the financial system. But I also felt that to the extent it was consistent with the best interests of our shareholders, we would do everything we reasonably could to try to prevent the systemic damage that a Bear Stearns failure could cause. I viewed that as the obligation of JPMorgan as a responsible corporate citizen.

By Sunday morning, we concluded that the risks were too great for us to buy the entire company on our own. We informed the New York Fed, Treasury and Bear Stearns of our conclusion. This wasn't a negotiating posture. It was the plain truth.

The New York Fed encouraged us to consider what kind of assistance would allow us to do a transaction. That is what we did. Finally, on Sunday evening, the private and government parties announced a plan with three core elements:

- First, JPMorgan would acquire Bear Stearns in a binding stock deal worth $2 per share to Bear's shareholders.
- Second, the Fed would provide the merged company with a $30 billion non-recourse loan, collateralized by a pool of Bear Stearns assets valued on Bear Stearns' books at the same amount.

- Third, JPMorgan would provide an unprecedented guaranty on billions of dollars of Bear Stearns trading obligations. This was done to assure the market that it could continue to do business with Bear Stearns and prevent a further run on the bank.

We hoped that the initial plan would save Bear Stearns and reassure the market that Bear Stearns would survive. But we also understood that we would have to monitor the situation closely. And it soon became clear that we had not done enough. Customers and counterparties continued to flee for two reasons: the market perceived our guaranty as too narrow; and it doubted that the $2 offer price would be enough to get Bear Stearns shareholders to approve the transaction.

Discussions with Bear Stearns and the federal government in the week following the initial merger announcement led to a revised rescue plan with a package of five critical new elements designed to address these real concerns:

- First, we strengthened our guaranty to cover virtually all Bear Sterns products, customer relationships and subsidiaries.
- Second, in response to a request from the Fed, we gave it a separate guaranty of its loans to Bear Stearns.
- Third, we agreed to take the first $1 billion of any losses that might ultimately flow from the Fed's $30 billion non-recourse funding.
- Fourth, Bear agreed to sell 95 million newly issued shares to us, representing 39.5% of its voting stock.
- Fifth, to help achieve finality, we increased our offer to $10 per share.

This amended plan worked. In the week following its announcement, the liquidity situation at Bear Stearns stabilized. And the day the revised plan was announced, Standard and Poor's raised Bear's credit ratings.

* * *

Let me say a word about the $30 billion of collateral for the Fed. We are subject to a confidentiality agreement with the Fed in relation to those assets, so I am constrained in what I can say. But I can make a few general points: The assets taken by the Fed consist entirely of loans that are current and domestic securities rated investment grade. We kept the riskier and more complex securities in the Bear Stearns portfolio for our own account.

We did not cherry pick the assets in the collateral pool. The process of designating what collateral would be pledged was overseen by the New York Fed's advisor, BlackRock, a recognized expert in the field. While no one can predict how that portfolio will ultimately perform -- and, of course, it could actually increase in value -- if the portfolio declines in value, the first $1 billion of that loss will be borne solely by JPMorgan.

* * *

Finally, let me turn briefly to the Committee's interest in the implications of this rescue for American taxpayers. The key point, in my view, is this: Bear Stearns would have failed without this effort, and the consequences could have been disastrous. The idea that the Bear Stearns fallout would have been limited to a few Wall Street firms just isn't so. People all over America -- union members, retirees, small business owners, and our parents and children -- are now invested in the financial system through pensions, 401(k)s, mutual funds and the like.

A Bear Stearns bankruptcy could well have touched off a chain reaction of defaults at other major financial institutions. That would have shaken confidence in credit markets that already have been battered. And it could have made it harder for

home buyers to get mortgages, harder for municipalities to get the funds they need to build schools and hospitals, and harder for students who need loans to pay tuition. Moreover, such a cascade of trouble could have further depressed consumer confidence and consumer spending, resulted in widespread job losses, and accelerated the current economic downturn.

* * *

Mr. Chairman, the events of the past three weeks have been extraordinary. I commend you and your colleagues for examining their implications for the future. One thing I can say with confidence: if the private and public parties before you today had not acted in a remarkable collaboration to prevent the fall of Bear Stearns, we would all be facing a far more dire set of challenges. Thank you and I look forward to answering your questions.

(10)

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SINGAPORE
SYDNEY
TOKYO
TORONTO
VIENNA

April 2, 2008

**BY HAND**
Shawn Maher, Esquire
Staff Director/Chief Counsel
Committee on Banking, Housing and
Urban Affairs
SD-534 Dirksen Senate Office Building
Washington, DC 20510-6075

Re: Opening Statement of Alan Schwartz

Dear Shawn:

Enclosed are fifty copies of the Opening Statement of Alan Schwartz. The statement is very short and it is important that he be given the opportunity of giving it at the start of his testimony.

Please call me at your convenience.

Sincerely,

Robert S. Bennett

Enclosure

**STATEMENT OF ALAN SCHWARTZ**
**PRESIDENT AND C.E.O. OF THE BEAR STEARNS COMPANIES, INC.**
**BEFORE THE U.S. SENATE BANKING COMMITTEE**
**April 3, 2008**

Good Morning, Chairman Dodd and Ranking Member Shelby.

My name is Alan Schwartz. I am the President and Chief Executive Officer of The Bear Stearns Companies. Bear Stearns and its 14,000 employees provide global investment banking services, securities and derivatives trading, clearance and brokerage services, and asset management services world-wide. I have been a part of, and have grown with, the Bear Stearns family for over 32 years. I am saddened by the fast-moving events of the past several weeks that bring me here today.

During the week of March 10, even though the firm was adequately capitalized and had a substantial liquidity cushion, unfounded rumors and attendant speculation began circulating in the market that Bear Stearns was in the midst of a liquidity crisis. The Company assured the public that our balance sheet, liquidity, and capital were strong, but the rumors and conjecture persisted.

Due to the stressed condition of the credit market as a whole and the unprecedented speed at which rumors and speculation travel and echo through the modern financial media environment, the rumors and speculation became a self-fulfilling prophecy. Because of the rumors and conjecture, customers, counterparties, and lenders began exercising caution in their dealings with us – and during the latter part of the week outright refused to do business with Bear Stearns. Even if these counterparties and institutional investors believed – as we did – that we were stable, it appears that these parties were faced with the dilemma that if the rumors proved true, they could be in the difficult position of having to explain to their clients and others why they continued to do business with Bear Stearns. As the week progressed, unfounded rumors grew into fear and our liquidity cushion dropped precipitously on Thursday, as customers withdrew cash and repo counterparties increasingly refused to lend against even high-quality collateral. There was, simply put, a run on the bank.

I want to emphasize that the impetus for the run on Bear Stearns was in the first instance the result of a lack of confidence, not a lack of capital or liquidity.

Throughout this period, Bear Stearns had a capital cushion well above what was required to meet regulatory standards. However, by Thursday of that week, a tipping point was reached on liquidity. The market rumors became self-fulfilling and Bear Stearns' liquidity pool began to fall sharply.

At that point, we needed to find a source of emergency financing to stabilize the situation and calm our clients and counterparties. On Thursday, we reached out to JP Morgan, among others, in part because JP Morgan served as our clearing agent and was therefore already familiar with our collateral position. We also informed the S.E.C. and the Federal Reserve as to what was happening.

We worked through the night and on Friday morning, March 14th, JP Morgan agreed to make a short-term loan available to Bear Stearns, supported by a back-to-back loan from the New York Federal Reserve Bank. We believed at the time that the loan (and the corresponding back-stop from the New York Fed) would be available for 28 days. We hoped this period would be sufficient to bring order to the chaos and allow us to secure more permanent funding or an orderly disposition of assets to raise cash, if that became necessary.

However, despite the announcement of the JP Morgan facility, market forces continued to drive and accelerate our precipitous liquidity decline. Also, that Friday afternoon, all three major rating agencies lowered Bear Stearns' long-term and short-term credit ratings. Finally, on Friday night, we learned that the JP Morgan credit facility would not be available beyond Sunday night. The choices we faced that Friday night were stark: find a party willing to acquire Bear Stearns by Sunday night, or face what my advisors were telling me could be a bankruptcy filing on Monday morning, which could likely wipe out our shareholders and cause losses for certain of our creditors. Therefore, we set out to find a potential purchaser to acquire Bear Stearns that had the wherewithal to provide the backing we needed – an arrangement we hoped would reassure our constituencies and curtail the flight of our clients and counterparties. And we needed to find and reach agreement with such a party over the weekend.

On Sunday, March 16th, after an intense effort to find the best transaction possible, we reached the first agreement with JP Morgan, which has been much-discussed in the press. JP Morgan would acquire Bear Stearns for $236 million, or $2 a share. Significantly, JP Morgan also agreed immediately to guarantee the trading obligations of Bear Stearns and its subsidiaries. As part of this deal, JP Morgan obtained an agreement from the New York Fed to loan up to $30 billion to

JP Morgan, secured by certain of Bear Stearns's assets. While we at Bear Stearns had some understanding that JP Morgan was seeking this commitment, we were not directly involved in the negotiations between JP Morgan and the government.

The following week, due to market uncertainty about the guarantees and the successful completion of the deal, the agreement between Bear Stearns and JP Morgan was renegotiated. In the end, JP Morgan agreed to pay $10 a share for Bear Stearns in a stock-for-stock merger, enhancements were made to JP Morgan's guarantee of our operating and certain other obligations, and a number of other changes were made to give greater certainty of closing. At the same time, we understand that JP Morgan's agreement with the New York Fed was modified to make the terms more favorable to the New York Fed.

In sum, before unfounded rumors began circulating in an already precarious credit market, leading to the run on Bear Stearns, the Company had adequate capital and liquidity, and a book value of approximately twelve billion dollars. Facing the dire choice of bankruptcy or a forced sale under exigent circumstances, we salvaged what we could to avoid wiping out our shareholders, bondholders, and 14,000 employees.

Federal officials and JP Morgan are in a better position than I to discuss their rationale and motives for participating in the transaction. I can only say that, as devastating as these events have been for the Bear Stearns family, the failure of Bear Stearns could have had an even more extensive, devastating impact on the stability of the financial markets as a whole. And it may have triggered a run on other investment banks, with potentially disastrous effects on the nation's economy. Like all of us, I am certainly glad such a disaster did not occur.

Thank you for your time. I am prepared to answer any questions you may have.

(7)

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 8, 2008

The Honorable Barney Frank
Chairman
Committee on Financial Services
House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

Pursuant to the requirements of 12 U.S.C. § 248(r)(2) of the Federal Reserve Act, enclosed is the record of the action of the Board of Governors of the Federal Reserve System on March 14, 2008, under the second paragraph of 12 U.S.C. § 343, to approve an extension of credit for Bear Stearns Companies, Inc., and other primary securities dealers. This record includes written findings documenting the unanimous determinations under section 248(r)(2)(a)(ii) by the available members of the Board that such action was required without the vote of five members of the Board

Sincerely,

Jennifer J. Johnson

Jennifer J. Johnson
Secretary of the Board

Enclosure

BOARD OF GOVERNORS
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WASHINGTON, D. C. 20551

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April 8, 2008

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Chairman
Committee on Banking, Housing, and
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U.S. Senate
Washington, D.C. 20510

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Sincerely,

Jennifer J. Johnson

Jennifer J. Johnson
Secretary of the Board

Enclosure

**RECORD OF DETERMINATIONS UNDER 12 U.S.C. § 248(r)(2) REGARDING APPROVAL OF EXTENSION OF CREDIT IN UNUSUAL AND EXIGENT CIRCUMSTANCES BY VOTE OF LESS THAN FIVE BOARD MEMBERS**

On Friday morning, March 14, 2008, all members of the Board of Governors then available, Chairman Bernanke, Vice Chairman Kohn, Governors Warsh and Kroszner, voted unanimously pursuant to the second paragraph of 12 U.S.C. § 343 to authorize the Federal Reserve Bank of New York, given the unusual and exigent circumstances, to extend credit to JP Morgan Chase & Co., to provide financing on a non-recourse basis to The Bear Stearns Companies, Inc. (Bear Stearns) and, if the Reserve Bank in consultation with the Chairman determines it appropriate, to other primary securities dealers, where the Reserve Bank finds that adequate credit accommodations are not available to the borrower from other banking institutions. The second paragraph of 12 U.S.C. § 343 provides that such action be taken by vote of not less than five members of the Board. Under 12 U.S.C. § 248(r)(2), the Board may take action under the second paragraph of section 343 on the vote of less than five members if the available members then in office unanimously approve the action and if certain conditions are met, including a condition that the available members of the Board make certain determinations specified in section 248(r)(2)(A)(ii) relating to the need for action before the unavailable members whose votes are required can be contacted.

In connection with this action approving the extension of credit, the available Board members unanimously made the determinations required by section 248(r)(2)(A)(ii).

1. The Board members determined that unusual and exigent circumstances existed and that Bear Stearns, and possibly other primary securities dealers, were unable to secure adequate credit accommodations from other sources. The available evidence indicated rapidly-changing developments over the previous few days resulting in a significant freezing up of liquidity in the term funding market for private label residential mortgage-backed securities and in similar markets. These markets serve as an important source of overnight financing for Bear Stearns and for the other primary securities dealers. Bear Stearns reported to the Federal Reserve System that it could not obtain necessary funding to meet its obligations during the day from alternate sources and, without Federal Reserve credit, would likely not be able to operate through the business day, thereby creating significant stress on the repo and related markets.

2. The Board members determined that the action on the extension of credit was necessary to prevent, correct, or mitigate serious harm to the economy or the stability of the financial system of the United States. The available evidence indicated that the unexpected inability of Bear Stearns to continue operations would likely cause serious disruptions in credit markets essential to the efficient functioning of the economy.

3. The Board members determined that despite the use of all means available, including all available telephonic, telegraphic, and other electronic means, the other member of the Board was not able to participate in the Board's action. The only member of the Board in office not available at the time of the Board's action was Governor Frederic Mishkin, who was in transit by airplane from Helsinki, Finland to the United States from 6:20 am EST to 5 pm EST on March 14. While he had been contacted and provided summary information, communications with him on this matter were not feasible at the time the Board was required to act, which was in the moments before the markets opened at 9:30 am on March 14.

4. The Board members determined that action on the extension of credit was required before the other member of the Board required to vote on the matter could return and/or participate by any available means, including by telephone, telegraph, and other electronic means. Governor Mishkin would not return to the United States until the evening of March 14. The available evidence indicated that immediate action was needed before the markets opened to allow Bear Stearns to meet its obligations on March 14. The immediate and unexpected inability of Bear Stearns to conduct its operations would likely have had serious disruptions in credit markets essential to the efficient functioning of the economy.

Pursuant to section 248(r)(2)(B), these written findings will be included in the record of the Board's action approving the extension of credit. Copies have been provided to Governor Mishkin as required by law. He has indicated his concurrence with the Board's findings and its actions.

(8)

BOARD OF GOVERNORS
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WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 8, 2008

The Honorable Christopher J. Dodd
Chairman
Committee on Banking, Housing, and
Urban Affairs
U.S. Senate
Washington, D.C. 20510

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Sincerely,

Jennifer J. Johnson

Jennifer J. Johnson
Secretary of the Board

Enclosure

**Identical letter also sent to:**
**Chairman Barney Frank, House Committee on Financial Services.**

(08-5913)
bcc: R. Ashton

**RECORD OF DETERMINATIONS UNDER 12 U.S.C. § 248(r)(2) REGARDING APPROVAL OF EXTENSION OF CREDIT IN UNUSUAL AND EXIGENT CIRCUMSTANCES BY VOTE OF LESS THAN FIVE BOARD MEMBERS**

On Friday morning, March 14, 2008, all members of the Board of Governors then available, Chairman Bernanke, Vice Chairman Kohn, Governors Warsh and Kroszner, voted unanimously pursuant to the second paragraph of 12 U.S.C. § 343 to authorize the Federal Reserve Bank of New York, given the unusual and exigent circumstances, to extend credit to JP Morgan Chase & Co., to provide financing on a non-recourse basis to The Bear Stearns Companies, Inc. (Bear Stearns) and, if the Reserve Bank in consultation with the Chairman determines it appropriate, to other primary securities dealers, where the Reserve Bank finds that adequate credit accommodations are not available to the borrower from other banking institutions. The second paragraph of 12 U.S.C. § 343 provides that such action be taken by vote of not less than five members of the Board. Under 12 U.S.C. § 248(r)(2), the Board may take action under the second paragraph of section 343 on the vote of less than five members if the available members then in office unanimously approve the action and if certain conditions are met, including a condition that the available members of the Board make certain determinations specified in section 248(r)(2)(A)(ii) relating to the need for action before the unavailable members whose votes are required can be contacted.

In connection with this action approving the extension of credit, the available Board members unanimously made the determinations required by section 248(r)(2)(A)(ii).

1. The Board members determined that unusual and exigent circumstances existed and that Bear Stearns, and possibly other primary securities dealers, were unable to secure adequate credit accommodations from other sources. The available evidence indicated rapidly-changing developments over the previous few days resulting in a significant freezing up of liquidity in the term funding market for private label residential mortgage-backed securities and in similar markets. These markets serve as an important source of overnight financing for Bear Stearns and for the other primary securities dealers. Bear Stearns reported to the Federal Reserve System that it could not obtain necessary funding to meet its obligations during the day from alternate sources and, without Federal Reserve credit, would likely not be able to operate through the business day, thereby creating significant stress on the repo and related markets.

2. The Board members determined that the action on the extension of credit was necessary to prevent, correct, or mitigate serious harm to the economy or the stability of the financial system of the United States. The available evidence indicated that the unexpected inability of Bear Stearns to continue operations would likely cause serious disruptions in credit markets essential to the efficient functioning of the economy.

3. The Board members determined that despite the use of all means available, including all available telephonic, telegraphic, and other electronic means, the other member of the Board was not able to participate in the Board's action. The only member of the Board in office not available at the time of the Board's action was Governor Frederic Mishkin, who was in transit by airplane from Helsinki, Finland to the United States from 6:20 am EST to 5 pm EST on March 14. While he had been contacted and provided summary information, communications with him on this matter were not feasible at the time the Board was required to act, which was in the moments before the markets opened at 9:30 am on March 14.

4. The Board members determined that action on the extension of credit was required before the other member of the Board required to vote on the matter could return and/or participate by any available means, including by telephone, telegraph, and other electronic means. Governor Mishkin would not return to the United States until the evening of March 14. The available evidence indicated that immediate action was needed before the markets opened to allow Bear Stearns to meet its obligations on March 14. The immediate and unexpected inability of Bear Stearns to conduct its operations would likely have had serious disruptions in credit markets essential to the efficient functioning of the economy.

Pursuant to section 248(r)(2)(B), these written findings will be included in the record of the Board's action approving the extension of credit. Copies have been provided to Governor Mishkin as required by law. He has indicated his concurrence with the Board's findings and its actions.